

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FEA-02 INT-08

NEA-10 DRC-01 /186 W

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R 121652Z MAR 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0000

INFO USMISSION EC BRUSSELS

UNCLAS SECTION 01 OF 02 BONN 03935

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O.H11652; N/A

TAGS: EFIN, GW

SUBJECT: QUINARY CONVENTION OF THE GERMAN FEDERATION  
OF BANKS

1. SUMMARY: AT THE BANKERS CONFERENCE FINANCE MINISTER SCHMIDT AND BUNDESBANK PRESIDENT KLASSEN CALLED FOR CONTINUED TIGHT MONETARY POLICY. BOTH FORESAW PRICE INCREASES IN GERMANY DURING 1974 BELOW TEN PERCENT. CHANCELLOR BRANDT STRESSED THE UNACCEPTABILITY TO THE FRG OF AN ANTI-AMERICAN EUROPEAN FRONT. EC VICE PRESIDENT HAFERKAMP CALLED FOR AN EC/US MONETARY ALLIANCE. END SUMMARY

2.H IN A SPEECH TO THE QUINARY MEETING OF THE GERMAN BANKERS ASSOCIATION, FINANCE MINISTER SCHMIDT CALLED FOR CONTINUATION OF CURRENT TIGHT GERMAN MONETARY POLICY AND PREDICTED THAT THE RATE OF PRICE INCREASE IN GERMANY WOULD REMAIN BELOW TEN PERCENT IN 1974.

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BUNDESBANK PRESIDENT KLASSEN ALSO PREDICTED THAT IF

ALL NOW WORKED TOGETHER PRICE INCREASES COULD BE KEPT BELOW TEN PERCENT DESPITE OF THE HIGH AND DESTABILIZING RECENT WAGE SETTLEMENTS. IN A COORDINATED EFFORT TO CALM THE CAPITAL MARKET, BOTH SCHMIDT AND KLASSEN INDICATED THAT THEY CONSIDERED THE TEN PERCENT NOMINAL INTEREST RATE OF RECENT BOND ISSUES ABOUT RIGHT AND THAT THE FEDERAL GOVERNMENT HAD NO INTENTION TO GO TO AN ELEVEN PERCENT COUPON.

3. SCHMIDT SAID THAT THERE WAS MUCH INTELLECTUAL ATTRACTIVENESS IN A GAME PLAN BY WHICH THE ABOLITION OF THE STILL REMAINING TWENTY PERCENT BARDEPOT WOULD LEAD TO ENOUGH PRIVATE GERMAN BORROWING ABROAD TO UPVALUE THE FLOATING DM SUFFICIENTLY TO HAVE ENOUGH OF A DOMESTIC DEFLATIONARY EFFECT TO ALLOW A REDUCTION OF DOMESTIC INTEREST RATES AND THUS STIMULATE CAPITAL INVESTMENT AND HELP THE SMALL BUSINESSMAN WHO IS PARTICULARLY HIT BY HIGH RATES OF INTEREST. SCHMIDT CONTINUED, HOWEVER, THAT IT WAS DOUBTFUL WHETHER THINGS WOULD WORK OUT THAT NICELY IN PRACTICE AND, IN ADDITION THE FRG ALSO HAD TO TAKE INTO CONSIDERATION THE INTEREST OF ITS PARTNERS IN THE SMALL SNAKE. NEVERTHELESS AND WHILE EXPRESSING SKEPTICISM OF AS NEAT A SCHEME AS THE ABOVE, SCHMIDT INDICATED THAT HE WOULD WELCOME SOME FURTHER UP VALUATION OF THE DM AND THAT, WHILE THE TIMING WAS AS YET UNCERTAIN, HE DID NOT INTEND TO HAVE THE 20 PERCENT BAR DEPOT REMAIN UNTIL THE END OF HIS TENURE AS FINANCE MINISTER (COMMENT: AND THAT COULD WELL BE RATHER SOONER THAN THE END OF THE PRESENT PERIOD OF THE LEGISLATURE IN 1976).

4. SCHMIDT ALSO INDICATED THAT THE DEFICIT (I.E., TAKING UP OF NEW DEBT) OF THE COMBINED BUDGETS OF ALL LEVELS OF GOVERNMENT WAS LIKELY TO BE IN THE DM 8-10 BILLION RANGE DURING 1974, BUT ARGUED THAT THIS DID NOT CONSTITUTE A DANGER TO STABILITY SINCE IT LESS THAN COMPENSATED THE WITHDRAWAL OF DOMESTIC UNCLASSIFIED

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PURCHASING POWER DUE TO ABOUT DM 15 BILLION OF HIGHER PAYMENTS TO MIDDLE EAST OIL PRODUCERS.

5. BUNDESBANK PRESIDENT KLASSEN AND THE HEAD OF THE GERMAN BANKING SUPERVISORY AUTHORITY WARNED THE GERMAN BANKS AGAINST EXCESSIVE SPECULATION IN FOREIGN CURRENCIES AND KLASSEN INDICATED THAT AT LEAST THREE FOREIGN CENTRAL BANKS FROM COUNTRIES WITH IMPORTANT

FOREIGN EXCHANGE MARKETS HAD LAST YEAR MENTIONED TO THE BUNDESBANK EXCESS SPECULATION BY GERMAN BANKS, INCLUDING COMMERCIAL BANKS (I.E., KLASSEN MADE CLEAR HE WAS REFERRING NOT JUST TO THE WELL-KNOWN CASES OF THE HESSIAN AND WESTDEUTSCHE LANDESBANKS).

6. IN A SHORT ADDRESS CHANCELLOR BRANDT ENDORSED THE NEED TO PUSH ON TOWARD EUROPEAN UNIFICATION,

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BUT ARGUED THAT FOR THE MOMENT A CONSOLIDATION PHASE WAS DESIRABLE. HE STRESSED THAT FOR GERMANY A GENERAL POSITION OF OPPOSITION (FRONTSTELLUNG) HVPS A VIS THE UNITED STATES WAS OUT OF THE QUESTION, SAYING: "REASONS OF SECURITY AND THE GENERAL EAST/WEST RELATIONSHIP, BUT ALSO ECONOMIC INTEREST DEMAND THAT WE KEEP IN BALANCE OUR EUROPEAN ORIENTATION AND OUR CONTRIBUTION TO THE EUROPEAN-AMERICAN RELATIONSHIP."

7. EC COMMISSION VICE PRESIDENT HAFERKAMP GAVE A DISCOURAGING DESCRIPTION OF THE PRESENT STATE OF EC MONETARY UNION. HE ARGUED THAT PROGRESS TOWARD MONETARY UNION MUST BE MADE SO THAT EC MONETARY UNIFICATION COULD BECOME A MOTOR FOR FURTHER ECONOMIC INTEGRATION. HE CALLED FOR A COORDINATION OF POLICIES TO BRING THE FLEXIBLE EXCHANGE RATES UNDER CONTROL, TO AVOID THE PITFALLS OF FLOATING AND TO PREVENT THE DEPENDENCE OF EXCHANGE RATES ON SHIFTING INVESTMENT PREFERENCES OF THE OIL PRODUCING COUNTRIES. IN PARTICULAR HE CRITICIZED THE EXCESSIVE FLUCTUATION OF EXCHANGE RATES DURING FLOATING PERIODS, REPORTING A TWENTY PERCENT FLUCTUATION IN THE RELATION OF THE MARK VS A VIS THE DOLLAR SINCE MAY 1973 WITH A RETURN TODAY TO THE SAME RELATIONSHIP AS IN MARCH OF 1973. HE ARGUED THAT SUCH FLUCTUATIONS WERE IN NO ONE'S INTEREST AND DESTABILIZING AND INFLATIONARY. (COMMENT: MEMBERS OF HIS STAFF TELL US THAT THE COMMISSION CONSIDERS FLEXIBLE RATES INFLATIONARY BECAUSE MOST PRICES ARE MORE FLEXIBLE UPWARD THAN DOWNWARD AND THUS GO UP MORE IN TEMPORARY DEVALUATIONS OF A CURRENCY THAN THEY GO DOWN IN AN UP VALUATION SWING.)

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8. HAFERKAMP ARGUED THAT ATTEMPTS TO BRING ABOUT THE NECESSARY COORDINATION OF POLICIES AND CONTROL OF FLOATING IN THE C-20 OR OTHER WIDER FORUMS WOULD BE TOO SLOW. HE, THEREFORE, CALLED FOR A "MONETARY ALLIANCE" BETWEEN THE EC AND THE US, WHICH COULD ALSO BE JOINED BY OTHERS, TO PRESERVE A MINIMUM OF INTERNATIONAL MONETARY ORDER AND PREVENT BEGGAR-MY-NEIGHBOR POLICIES.

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